

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2004-121

April 20, 2004

NORTHERN UTILITIES, INC.,
Proposed Cost of Gas Factor
for May 2004 – October 2004

ORDER

WELCH, Chair; DIAMOND and REISHUS, Commissioners

I. SUMMARY

We approve Northern Utilities, Inc.'s (Northern) proposed Cost of Gas Factor (CGF) for the 2004 Summer Period, but do not allow the recovery during this period of \$685,213 which was transferred out of the 2003 Summer Period. We also approve an Environmental Response Cost Adjustment (ERCA) of \$0.0077 per Ccf.

II. PROCEDURAL HISTORY

On February 17, 2004, pursuant to 35-A M.R.S.A. § 4703 and Chapter 430(2) of the Commission's Rules, Northern filed its proposed CGF for the Summer 2004 gas usage period. Northern also proposed a change in the Environmental Recovery Cost (ERC) rate in accordance with the settlement approved in Docket No. 96-678. The Commission issued a Notice of Proceeding to intervenors in prior CGF cases and by publication in newspapers of general circulation in Northern's service area.

The Office of the Public Advocate (OPA) intervened. To investigate the proposed CGF changes, the Advisory Staff issued data requests to the Company on its filing. A preliminary hearing was held on March 24, 2004, at which the Advisory Staff and the parties explored the issues raised by this filing. At that hearing, Northern indicated that it would make a revised CGF filing to incorporate an updated forecast of Summer Period commodity costs prior to the implementation of rates. On March 25, 2004, in response to questions raised at the conference, Northern provided a written explanation of its calculations shown in Advisors' Data Request No. 1-2.

III. RECORD

The record in this proceeding includes all filings, data responses, transcripts, and any other materials provided in the proceeding.

IV. DISCUSSION

A. Overview of Proposed Rates

In its February 15, 2004 filing, Northern proposed the following 2004 Summer Period CGF rates on a per hundred cubic feet (Ccf) basis to become effective May 1, 2004:

Class	Rate	% Average Bill Change from Summer 2003
Residential - Heat (R-2)	\$0.8469	(7.2)
Residential – Non-Heat (R-1)	0.8469	(7.2)
Small Commercial - Low Winter Use (G-50)	0.8203	(1.9)
Small Commercial - High Winter Use (G-40)	0.8605	(6.5)
Medium Commercial - Low Winter Use (G-51)	0.8219	(2.6)
Medium Commercial - High Winter Use (G-41)	0.8595	(8.4)
Large Commercial/Industrial – Low Winter Use (G-52)	0.8668	(0.9)
Large Commercial/Industrial – High Winter Use (G-42)	0.8951	(6.7)

These rates will be updated to reflect more recent NYMEX futures prior to the implementation of 2004 Summer Period CGF rates.

The proposed ERC rate of \$0.0077 per Ccf is calculated to adjust the rate to better match remaining unrecovered costs for environmental clean-up allowed in rates to date net of revenues collected during the Winter 2003 – 2004 Period, in accordance with the settlement in Docket No. 96-678.

B. Issues

1. 2003 Summer Period Under-Collection

Maine law allows for the recovery of prior period cost of gas under-collections, with interest, during the next corresponding seasonal period. 35-A M.R.S.A. § 4703 and Chapter 430 of the MPUC Rules. In its filing, Northern reported an under-collection of approximately \$685,213 from the 2003 Summer Period.¹ Northern initially projected an over-collection in the 2003 Summer Period of approximately \$1 million. In Docket No. 2003-607, we allowed Northern to reduce 2003-2004 Winter Period rates by \$800,000, an anticipated over-collection from the 2003 Summer Period which resulted from higher summer sales and lower-than-anticipated gas prices during the later part of the summer period. See *Northern Utilities, Inc., Docket No. 2003-607*, Order (Oct. 22).

¹ This comprises an under-collection of \$791,434 in demand costs and an over-collection of \$106,221 in commodity costs.

2003).² We approved this transfer across seasonal periods to mitigate anticipated high 2003-2004 Winter Period rates.³ However, the large 2003 Summer Period over-collection did not occur. Instead, Northern over-collected only \$114,887 during the 2003 Summer Period.

In estimating the expected over-collection for the 2003 Summer Period prior to the beginning of the Winter 2003–2004 period, Northern used an incorrect sales figure (October Unbilled Sales, rather than September Unbilled Sales) which resulted in an over-estimation of its sales by 684,245 ccf, representing revenues of approximately \$685,213.⁴ Accordingly, because the 2003 Summer Period over-collection ultimately amounted to only \$114,000, Northern's transfer of \$800,000 from the 2003 Summer Period balancing account into the 2003-2004 Winter Period has resulted in a deficit, or under-collection, vis a vis actual revenues in the 2003 Summer Period Past Gas Cost Account of \$685,213. If Northern had correctly estimated its expected over-collection and flowed only that to the Winter 2003–2004 period, the 2003 Summer Period under-collection would have been \$49,968 instead of \$685,213. In this circumstance, Northern would likely not have proposed and we would not have approved a transfer of amounts from the summer to the winter period. But because \$800,000 has been transferred out of the Summer Period Past Gas Cost Account to the winter period account, the summer account now reflects a deficit of \$685,213.

Northern proposes to recover this \$685,213 as an under-collection of the 2003 Summer Period costs, and increase the 2004 Summer Period rates by approximately \$0.0752 per Ccf for all customer classes, or approximately 2%, to make up that amount. Northern argues that this is preferable to reversing the transfer either fully (\$800,000) or in the amount net of the actual 2003 Summer Period over-collection (\$685,213). Northern argues that reversing either of these amounts will result in a rate reduction to 2004 Summer Period rates, enlarging the difference between 2003 and 2004 summer period rates. Also of concern to Northern is the variance in the rates between seasons. If the error is reversed, the Summer 2004 rate will be lower and the Winter 2004–2005 rate will be higher by \$685,213 than if the correction is not made.

During the technical conference, the Hearing Examiner proposed that Northern adjust both the Summer and Winter Period's Past Gas Cost Accounts to correct Northern's estimation error for the Summer 2003 over-collection flowed into 2003-2004 Winter Period rates. This would ensure that costs from like periods are not unnecessarily

² See Appendix A for further discussion of the Commission's reasoning in this decision.

³ Northern might have initiated a mid-course rate adjustment in an effort to reduce the period over-collection if the large over-collection had been anticipated earlier in the period.

⁴ See Northern Exhibit No. 1 from the March 24, 2003 Technical Conference.

carried into the other season's rates, helping preserve the Commission's established policy of maintaining separation between summer and winter season rates. With reversal of this error, 2004 Summer Period rates would better reflect the current gas costs, sending appropriate price signals to Northern's customers; the 2004-2005 Winter Period rates will reflect the corrected winter period past gas cost balance. Staff proposed that, in correcting this error, Northern should use the same proportionate class allocation that it used to transfer the erroneously calculated projected 2003 Summer Period over-collection of \$800,000 into 2003-2004 Winter Period rates. The OPA indicated its agreement with the Hearing Examiner's proposal to preserve the seasonal relationship between costs and rates and a more accurate price signal to customers.

Although not strongly opposed to the Hearing Examiner's approach, Northern prefers its proposal because 2004 Summer Period rates are already lower than Summer 2003 rates. In its view, reversing its error will increase the rate differential between the 2003 and 2004 summer seasons by approximately 2%, from (7.2%) for residential customers to (9.2%).⁵ Northern also argued that, although the 2004 – 2005 Winter Period rate level is currently unknown, it is likely that those rates will be higher than those of the 2003 – 2004 Winter Period. Consequently, requiring Northern to collect the amount attributable to reversing its estimation error of \$685,213 in the 2004 – 2005 Winter Period would further increase those rates.⁶ Northern argues against making this adjustment because it would partially undo the Commission's previous order approving a transfer of \$800,000 of anticipated 2003 Summer Period over-collections to the 2003-2004 Winter Period.

The alternatives presented to us would recover the amount attributable to Northern's estimation error, either during the Summer 2004 period or the Winter 2004 – 2005 period. Northern argues to recover the deficit in summer rates because of the inter-period rate smoothing benefits, while the OPA views maintaining separation between seasonal rate accounting as more important.⁷ We agree with the OPA and conclude that the \$685,213 should be recovered in the 2004-2005 Winter Period using a proportionate allocation to classes. Doing so reverses Northern's estimation error and clears the summer period Past Gas Cost Account of this matter.

⁵ These percentages will change when Northern files its update. At the March 24, 2004 technical conference, Northern stated that if it calculated the CGF using the March 23, 2004 NYMEX settlement prices, which are higher than those used in the filing, the decrease would be approximately 5%.

⁶ Northern estimates that through March 14, 2004, it has undercollected \$437,160, or 3% during the Winter 2003 – 2004 period, an amount that will have to be recovered during the Winter 2004 – 2005 period. The final amount of the under-recovery will not be known until after the end of the winter season.

⁷ The Commission established seasonal cost of gas accounting policy and procedures in Chapter 430 of its Rules.

Further, we allow Northern's other proposed costs to be included in the Summer 2004 period CGF rate, having found no evidence of imprudence.

2. ERCA Adjustment

As allowed in Docket No. 96-786, Northern has adjusted its ERCA rate for the Summer period to reflect the recoveries during the Winter 2003 – 2004 period. Northern calculated the ERCA rate by taking the recoverable charges less the recoveries during the Winter 2003 – 2004 period and dividing that amount by the estimated sales for the 6-month period ending October 31, 2004. We have reviewed Northern's calculations and find them in compliance with our Order in Docket No. 96-786 and approve the adjustment.

3. Hedging

Northern has included costs related to its hedging plan. Northern calculated the estimated profit or loss based upon the most recent NYMEX futures prices for the hedges that it has purchased for the upcoming summer period supply. Actual profits or losses for the 2004 Summer Period will be reconciled when Northern files its 2005 Summer Cost of Gas filing.

Northern's proposal assigns the costs, including the profits or losses, of summer period supply hedges to the customers who will use the gas purchased through the hedges. This is reasonable and consistent with the intent of the approved hedging plan.

4. Updated Rates

Northern's proposed rates are based upon the NYMEX natural gas futures prices as of February 5, 2004. It would normally file an update closer to the beginning of the summer period to reflect recent changes in the market. We will require that when Northern recalculate its rates based upon the findings of this Order, it reflect the most current NYMEX natural gas futures prices. We also delegate to the Director of Technical Analysis the authority to approve Northern's compliance filing.

V. CONCLUSION

We authorize the Director of Technical Analysis to approve Northern's proposed CGF rates for implementation May 1, 2004, except for recovery of \$685,213 as discussed above, once those rates have been updated to reflect more recent NYMEX future prices and have been submitted in a compliance filing.

Dated at Augusta, Maine, this 20th day of April, 2004.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch

Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.